

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**

**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**

**YEAR ENDED JUNE 30, 2007**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Mecosta-Osceola Intermediate School District  
Big Rapids, Michigan

September 11, 2007

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mecosta-Osceola Intermediate School District, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mecosta-Osceola Intermediate School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mecosta-Osceola Intermediate School District as of June 30, 2007 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

September 11, 2007

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2007, on our consideration of Mecosta-Osceola Intermediate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xiv and 25 through 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mecosta-Osceola Intermediate School District's basic financial statements. The additional information on pages 29 through 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mayer, Costensen & Ellis, P.C.*

Certified Public Accountants

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

As management of the Mecosta-Osceola Intermediate School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplementary and additional information that presents all the District's revenue and expenditures by program.

**Financial Highlights**

Our financial statements provide these insights into the results of this year's operations.

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$12,530,371 (*net assets*). Of this amount, \$8,454,484 (*unrestricted net assets*) may be used to meet the District's ongoing obligations for general district programs.
- The District's total net assets decreased by \$19,560.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$8,855,025, a decrease of \$232,039 in comparison with the prior year.
- At the end of the current fiscal year, the aggregated fund balances for the District's operating funds (general fund, special education fund, and technical education fund) was \$8,808,173 or 48% of the total expenditures of these operating funds. On pages xi and xii you will find a breakdown of the designated and undesignated balance of the three major funds.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction of the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The activities of the District include instruction, support services, community service and transfers to locals and other services. The District has no business-type activities as of and for the year ended June 30, 2007.

The government-wide financial statements can be found on pages 1 and 2 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental fund type category.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains numerous governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special education fund, and the vocational education fund, each of which are considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts annual appropriated budgets for its general and special revenue budgets. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 3 and 4 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7 through 23 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary information for the District's major funds. Required supplementary information can be found on pages 25 through 27 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the supplementary information. Combining fund statements can be found on pages 29 and 30 of this report.

Our auditor has provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Additional Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the other parts in the financial section.

### **Government-wide Financial Analysis**

The District's net assets were \$12,530,371 at June 30, 2007. Of this amount, \$8,454,484 was unrestricted, a decrease of \$329,832 from last fiscal year.

The following table shows the District's net assets in 2007 and 2006.

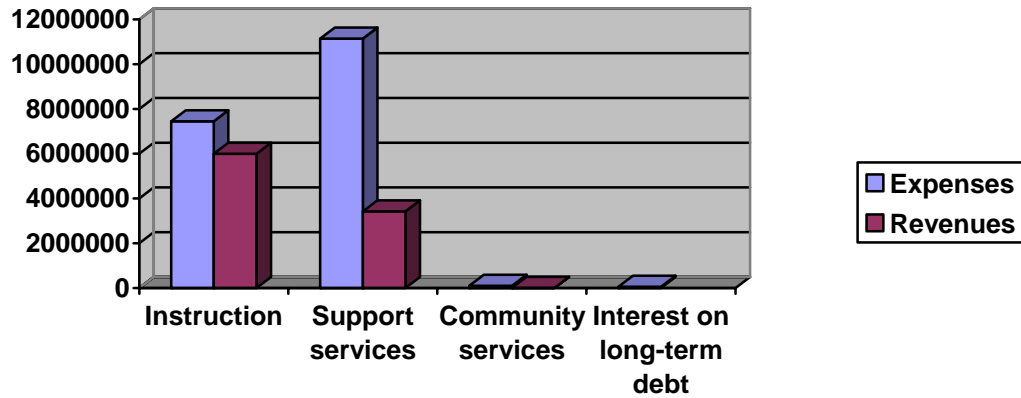
<b>District's Net Assets</b>		
<b>Mecosta-Osceola Intermediate School District</b>		
	<b>2007</b>	<b>2006</b>
Current assets	\$ 10,542,234	\$ 10,991,135
Noncurrent assets	4,483,120	4,168,596
<b>Total assets</b>	<b>15,025,354</b>	<b>15,159,731</b>
Current liabilities	1,868,675	2,033,235
Noncurrent liabilities	626,308	576,565
<b>Total liabilities</b>	<b>2,494,983</b>	<b>2,609,800</b>
<b>Net assets:</b>		
<b>Invested in capital assets, net of related debt</b>	4,075,887	3,765,615
Unrestricted	8,454,484	8,784,316
<b>Total net assets</b>	<b>\$ 12,530,371</b>	<b>\$ 12,549,931</b>



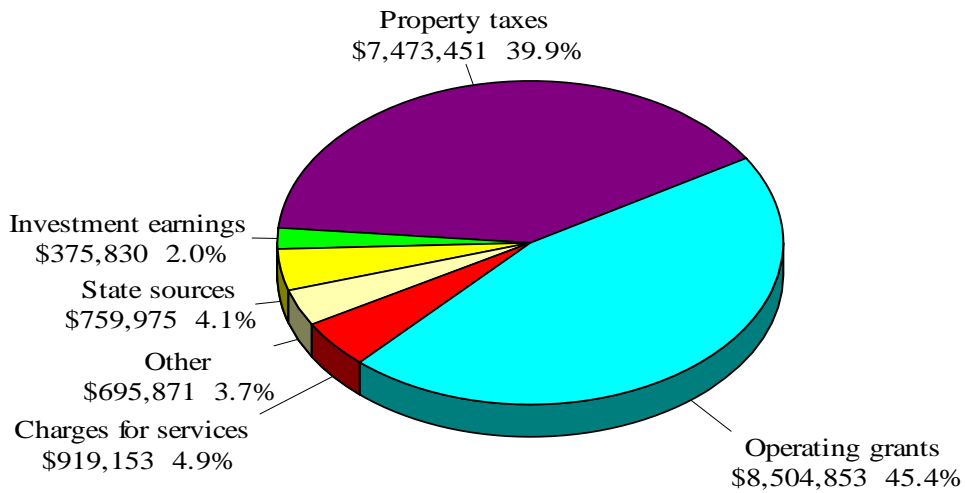
MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT		
Changes in net assets		
	Governmental Activities	
	2007	2006
<b>Revenue:</b>		
Program revenue:		
Charges for services	\$ 919,153	\$ 810,331
Operating grants	8,504,853	7,722,909
General revenue:		
Property taxes, levied for general purposes	456,999	425,480
Property taxes, levied for special education	4,276,466	3,979,120
Property taxes, levied for vocational education	2,739,986	2,482,241
Investment earnings	375,830	296,910
State sources	759,975	760,242
Other	695,871	812,104
<b>Total revenue</b>	<b>18,729,133</b>	<b>17,289,337</b>
<b>Expenses:</b>		
Instruction	7,444,551	6,566,937
Supporting services	11,140,814	10,134,381
Community services	103,294	31,004
Interest on long-term debt	60,034	20,338
<b>Total expenses</b>	<b>18,748,693</b>	<b>16,752,660</b>
<b>Increase (decrease) in net assets</b>	<b>(19,560)</b>	<b>536,677</b>
<b>Net assets, beginning of year</b>	<b>12,549,931</b>	<b>12,013,254</b>
<b>Net assets, end of year</b>	<b>\$ 12,530,371</b>	<b>\$ 12,549,931</b>

**Governmental Activities.** Net assets decreased by \$19,560. Key elements of this consistency is revenues kept up with the increase in expenditures.

**Expenses and Program Revenues – Governmental Activities  
Year ended June 30, 2007**



**Revenues by Source – District Activities  
Year ended June 30, 2007**



## **Major Governmental Funds Budgeting and Operating Highlights**

The District's budgets are prepared according to Michigan law. The most significant budgeted funds are the general fund, special education fund, and vocational education fund.

During the fiscal year ended June 30, 2007, the District amended the budgets of these major governmental funds two times.

**General Fund** - The general fund actual revenue was \$2.04 million. That amount is above the original budget estimate of \$1.72 million and below the final budget amendment of \$2.11 million. The variance between the actual revenue and final budget was the result of state funds that were anticipated in 2006-07 but not received.

The actual expenditures of the general fund were \$2.05 million, which is above the original budget of \$1.87 million and below the final amendment of \$2.36 million. The variance can also be attributed to state and grant expenditures.

General fund had total revenues of \$2.04 million and total expenditures of \$2.05 million with an ending fund balance of \$1.64 million.

**Special Education Fund** - The special education fund actual revenue was \$12.69 million. That amount is above the original budget of \$11.83 million and above the final amendment of \$12.15 million. The variance was the result of additional special education receipts received prior to June 30 that were not anticipated.

The actual expenditures of the special education fund were \$12.51 million, which is above the original budget of \$12.02 million and below the final amendment of \$13.02 million. The variance was the result of containing expenditures through out the Special Education Fund.

Special education fund had total revenue of \$12.69 million and total expenditures of \$12.51 million with an ending fund balance of \$4.23 million.

**Vocational Education Fund** - The career and technical education fund actual revenue was \$3.78 million. That amount is above the original budget of \$3.60 million and above the final amendment of \$3.62 million.

The actual expenditures were \$3.81 million, which is below the original budget of \$4.31 million and below the final amendment of \$4.12 million. The variance was due to lower than anticipated added needs expenditures.

Technical education fund had total revenue of \$3.78 million and total expenditures of \$3.81 million with an ending fund balance of \$2.94 million.

**Governmental Funds** - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a district's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved and undesignated, was \$497,999, while total fund balance of the general fund was \$1,641,778. As a measure of the general fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents approximately 24% of total general fund expenditures and operating transfers out, while total fund balance represents 80%.

The fund balance of the District's general fund decreased by \$148,760 during the current fiscal year. The largest revenue source in this fund is state revenue which includes state aid. Expenditures consist primarily of costs associated with supporting early education, learning resources, and a portion of the executive administration and fiscal services of the District.

The special education fund at year end had unreserved and undesignated fund balance of \$2,087,474, while total fund balance of the special education fund was \$4,226,871. Unreserved, undesignated fund balance represents approximately 17% of total special education fund expenditures and operating transfers out, while total fund balance represents approximately 34%.

The fund balance of the District's special education fund increased by \$93,066 from the prior year. These resources are restricted for special education programs administered by the District and transfers to local districts for special education programs. The largest portion of this fund's revenues come from state revenue which includes state aid; while the largest expenditures are for the center and categorical programs and pupil support services to the local districts which include a large number of itinerant staff.

The vocational education fund at year end had unreserved and undesignated fund balance of \$655,411, while total fund balance of the vocational education fund was \$2,939,524. Unreserved, undesignated fund balance represents approximately 17% of total vocational education fund expenditures and operating transfers out, while total fund balance represents approximately 75%.

The fund balance of the District's vocational education (career and technical education) fund increased by \$4,417 from the prior year. These resources are restricted for career and technical education purposes. The largest portion of this fund's revenues comes from property taxes while the expenditures are for the programs at the Technical Center.

The cooperative education fund at year end had unreserved and undesignated fund balance of \$49,616, while total fund balance of the cooperative education fund was \$50,438. Unreserved, undesignated fund balance represents approximately 19% of total cooperative education fund expenditures and operating transfers out, while total fund balance represents approximately 20%.

The fund balance of the District's cooperative education fund increased by \$25,003 from the prior year. These resources are restricted to provide professional services to the local school districts within the intermediate school district. The largest portion of this fund's revenues comes from interdistrict sources while the expenditures are for the professional services provided.

### **Capital Asset and Debt Administration**

**Capital Assets** – At the end of fiscal year 2007, the District had \$7.97 million invested in land, buildings, and office and instructional equipment. Of this amount, \$3.55 million in depreciation has been taken over the years. The District has net capital assets of \$4.41 million.

<b>Mecosta-Osceola Intermediate School District's</b>		
<b>(Net of depreciation)</b>		
<b>June 30,</b>		
	2007	2006
Land	\$ 110,235	\$ 110,235
Land improvements	60,299	60,299
Buildings and improvements	5,070,555	4,937,044
Buses and other vehicles	865,263	781,117
Furniture and equipment	1,836,539	1,603,368
Work in process	25,785	
Subtotal	7,968,676	7,492,063
Accumulated depreciation	3,554,808	3,323,467
<b>Total</b>	<b>\$ 4,413,868</b>	<b>\$ 4,168,596</b>

Additional information on the District's capital assets can be found in Note 6 of this report.

**Long-term Debt-** at the end of the current fiscal year, the District had a total bonded debt outstanding of \$337,981. Of this balance, \$337,981 is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitation, and is payable solely from state aid payments from the State of Michigan.

The District's total debt decreased by \$65,000 during the current fiscal year, with no new debt issuances. Additional information on the District's long-term debt can be found in Note 7 of this report.

### **Economic Factors and Next Year's Budget**

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future.

The continual sluggish economy in the State of Michigan has placed state aid funding for 2006-2007 in jeopardy of being prorated. State sources of revenue total \$5.05 million of the budget. Any proration of these funds could have an impact on the long-term financial stability of the District and force a further reduction in services.

The District has been able to increase fund balance over the past two years a total of \$1,058,637. The three major funds are projected, however; to utilize a portion of the fund balance for 2007-08. If the State's sluggish economy should continue, the District will be forced to reduce expenditures by cutting services, search for new revenue sources, and for the first time in many years, borrow money for short-term cash flow purposes.

The Michigan Public School Employees Retirement System contribution increased to 17.74% in 2006-07, from 16.34% in 2005-06. It is projected to continue to rise over the next ten years. In addition, health insurance is expected to rise another 14-18% next year. These increases may disrupt the financial stability of the District unless changes are made in the retirement system or employee health insurance program.

### **Requests for information**

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Denise Robinson, Director of Finance and Operations, Mecosta-Osceola ISD, 15760 190<sup>th</sup> Avenue, Big Rapids, MI 49307-9096.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

	<u>Governmental activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 905,855
Investments	7,350,643
Receivables:	
Accounts receivables	34,275
Taxes receivable	18,123
Due from other governmental units	1,723,921
Prepaid expenditures	70,223
Inventories	394,897
Current portion of long-term receivable - local districts	44,297
<b>TOTAL CURRENT ASSETS</b>	<u>10,542,234</u>
<b>NONCURRENT ASSETS:</b>	
Long-term receivable - local districts	<u>69,252</u>
<b>CAPTIAL ASSETS:</b>	
Capital assets	7,968,676
Less accumulated depreciation	<u>3,554,808</u>
<b>TOTAL CAPITAL ASSETS</b>	<u>4,413,868</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 15,025,354</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 613,919
Accrued payroll and other liabilities	1,047,741
Accrued interest	58,505
Due to local school districts	63,460
Deferred revenue	13,218
Current portion of compensated absences	71,832
<b>TOTAL CURRENT LIABILITIES</b>	<u>1,868,675</u>
<b>NONCURRENT LIABILITIES:</b>	
Noncurrent portion of long-term debt	337,981
Noncurrent portion of compensated absences	<u>288,327</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>626,308</u>
<b>TOTAL LIABILITIES</b>	<u>2,494,983</u>
<b>NET ASSETS:</b>	
Investment in capital assets net of related debt	4,075,887
Unrestricted	<u>8,454,484</u>
<b>TOTAL NET ASSETS</b>	<u>12,530,371</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 15,025,354</u></u>

See notes to financial statements.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2007**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 7,444,551	\$ 450,878	\$5,543,147	\$ (1,450,526)
Support services	11,140,814	468,200	2,954,327	(7,718,287)
Community services	103,294	75	7,379	(95,840)
Interest on long-term debt	60,034			(60,034)
Total governmental activities	<u>\$18,748,693</u>	<u>\$ 919,153</u>	<u>\$8,504,853</u>	<u>(9,324,687)</u>
General revenues:				
Property taxes, levied for general purposes				456,999
Property taxes, levied for special education				4,276,466
Property taxes, levied for vocational education				2,739,986
State aid not restricted to specific purposes				759,975
Interest and investment earnings				375,830
Other				695,871
Total general revenues				<u>9,305,127</u>
CHANGE IN NET ASSETS				(19,560)
NET ASSETS:				
Beginning of year				<u>12,549,931</u>
End of year				\$ 12,530,371



MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

		Special revenue								
		General fund	Special Education fund	Vocational Education fund	Other nonmajor governmental funds	Total governmental funds				
ASSETS										
ASSETS:										
Cash and cash equivalents	\$	231,345	\$	324,562	\$	344,681	\$	5,267	\$	905,855
Investments		1,422,070		3,574,464		2,354,109				7,350,643
Receivables:										
Accounts receivables		182		33,041		1,052				34,275
Taxes receivable		1,106		10,375		6,642				18,123
Due from other governmental units		207,996		1,427,532		154,217		47,725		1,837,470
Prepaid expenditures		6,569		52,595		10,237		822		70,223
Inventories						394,897				394,897
TOTAL ASSETS		\$ 1,869,268	\$ 5,422,569	\$ 3,265,835	\$ 53,814	\$ 10,611,486				
LIABILITIES AND FUND BALANCES										
LIABILITIES:										
Accounts payable	\$	125,598	\$	345,833	\$	135,526	\$	6,962	\$	613,919
Accrued payroll and other liabilities		87,260		776,338		184,143				1,047,741
Due to local school districts		308		63,152						63,460
Deferred revenue		14,324		10,375		6,642				31,341
TOTAL LIABILITIES		227,490	1,195,698	326,311	6,962	1,756,461				

	Special revenue			Other nonmajor governmental funds	Total governmental funds
	General fund	Special Education fund	Vocational Education fund		
FUND BALANCES:					
Reserved, inventories	\$	\$	\$ 394,897	\$	\$ 394,897
Reserved, prepaid expenditures	6,569	52,595	10,237	822	70,223
Unreserved:					
Designated	1,137,210	2,086,802	1,878,979		5,102,991
Undesignated	497,999	2,087,474	655,411	46,030	3,286,914
TOTAL FUND BALANCES	1,641,778	4,226,871	2,939,524	46,852	8,855,025
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,869,268	\$ 5,422,569	\$ 3,265,835	\$ 53,814	\$ 10,611,486
Total Governmental Fund Balances					\$ 8,855,025

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds					
The cost of the capital assets is				\$ 7,968,676	
Accumulated depreciation is				3,554,808	4,413,868
Other long-term assets are not available to pay for current period expenditures:					
Balance of taxes receivable at June 30, 2007 less allowance for doubtful accounts, collected after September 1, 2007					18,123
Long-term liabilities are not due and payable in the current period and are not reported in the funds					
Long-term debt					(337,981)
Compensated absences					(360,159)
Accrued interest is not included as a liability in government funds, it is recorded when paid					(58,505)
Net assets of governmental activities					\$ 12,530,371

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2007**

	Special revenue		Other	Total
	Special	Vocational	nonmajor	Total
	Education	Education	governmental	governmental
	Fund	Fund	funds	funds
	General			
	fund			
<b>REVENUES:</b>				
Local sources:				
Property taxes	\$ 456,497	\$ 4,280,475	\$ 2,740,589	\$ 7,477,561
Investment earnings	84,949	160,166	2,925	375,830
Other	94,307	676,009		928,458
Total local sources	635,753	5,116,650	2,925	8,781,849
State sources	925,859	4,606,039		5,923,794
Federal sources	31,553	2,841,806		3,234,110
Interdistrict sources	448,384	126,214	218,892	793,490
Total revenue	2,041,549	12,690,709	221,817	18,733,243
<b>EXPENDITURES:</b>				
Instruction:				
Basic	499,467			499,467
Added needs		4,709,578	2,114,941	6,824,519
Supporting services:				
Pupil	117,351	4,633,131	313,497	5,063,979
Instruction	265,149	773,713	12,300	1,051,162
General administration	196,405	71,582	56,015	368,054
School administration			44,052	222,846
Business	263,040	483,980	228,585	975,605
Operation and maintenance	128,037	200,554	304,846	743,213
Transportation	13,706	830,371	109,776	844,077
<b>EXPENDITURES:</b>				
Supporting services (Concluded):				
Central support	\$ 279,213	\$ 170,603	\$ 274,308	\$ 824,545
Other			38,753	38,753
Community services	78,160	2,469	22,665	103,294
Debt service:				
Principal			65,000	65,000
Interest			3,510	3,510
Other			275	275
Capital outlay			273,690	273,690
Transfer to school districts and other governmental units	205,393	630,754	227,146	1,063,293
Total expenditures	2,045,921	12,506,735	596,724	18,965,282
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(4,372)	183,974	(374,907)	(232,039)
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers from other funds			147,422	341,567
Operating transfers to other funds	(144,388)	(90,908)	(106,271)	(341,567)
Total other financing sources (uses)	(144,388)	(90,908)	194,145	
<b>NET CHANGE IN FUND BALANCES</b>	(148,760)	93,066	(180,762)	(232,039)
<b>FUND BALANCES:</b>				
Beginning of year	1,790,538	4,133,805	227,614	9,087,064
End of year	\$ 1,641,778	\$ 4,226,871	\$ 46,852	\$ 8,855,025

See notes to financial statements.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007**

<b>Net change in fund balances total governmental funds</b>	<b>\$ (232,039)</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(231,341)
Capital outlay	476,613

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable beginning of the year	1,981
Accrued interest payable end of the year	(58,505)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

Repayment of principal on long-term debt	65,000
--	--------

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue beginning of the year	(22,233)
Deferred revenue end of the year	18,123

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences beginning of the year	323,000
Accrued compensated absences end of the year	(360,159)

<b>Change in net assets of governmental activities</b>	<b>\$ (19,560)</b>
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**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**JUNE 30, 2007**

Electrical  
Consortium  
Agency fund

**ASSETS**

Due from other governmental units	<u>\$ 42,658</u>
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**LIABILITIES**

Accounts payable	<u>\$ 42,658</u>
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**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Mecosta-Osceola Intermediate School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**A. Reporting Entity**

Mecosta-Osceola Intermediate School District (the "District") is governed by the Mecosta-Osceola Intermediate School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Nos. 14 and 39.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, property taxes and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in two parts - invested in capital assets, net of related debt and unrestricted net assets.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements (Continued)**

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary administrative fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *special education special revenue fund* which accounts for special education programs.

The *vocational education special revenue fund* which accounts for technical education programs.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements (Concluded)**

**Other Non-major Funds**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its cooperative education in a special revenue fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. This is maintained for the Durant debt.

The *capital projects fund* is comprised of the vocational education capital project fund. Funds are transferred from the vocational education fund specially designated for acquiring equipment, vehicles, and for major remodeling and repairs. These funds are retained until the purpose for which the funds were created has been accomplished.

**Fiduciary Funds** account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *electrical consortium agency* fund records the electricity activities of the local school districts who participate in the electrical consortium. The District acts as a pass-through for the local school districts' costs with the electrical company.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.



**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

For the year ended June 30, 2007, approximately \$192,000 of non cash transactions from the Michigan Department of Education (MDE) has been recorded as state aid revenue and pension expenditures as a result of a change in funding by the MDE.

**D. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

2. Property taxes (Concluded)

For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General fund	0.2495
Special revenue funds:	
Special education fund	2.3395
Vocational education fund	1.4977

3. Inventories and prepaid expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

Inventories of the vocational education fund are comprised principally of land held for resale and a house held for resale.

4. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

5. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 - 50 years
Buses and other vehicles	5 - 10 years
Furniture and other equipment	5 - 10 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated absences

The District's policies generally provide for granting vacation or sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Other Accounting Policies (Concluded)**

8. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)**

5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue and debt service funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The District does not consider these amendments to be significant.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

As of June 30, 2007, the District had the following investments:

<b>Investment type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
MILAF External Investment pool-MICMS	\$ 2,924	0.0027	AAAm	0.4%
MILAF External Investment pool-MIMAX	755,602	0.0027	AAAm	99.6%
	<u>\$ 758,526</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2007, the fair value of the District's investments is the same as the value of the pool shares.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, \$8,475,714 of the District's bank balance of \$9,118,141 was exposed to custodial credit risk because it was uninsured and uncollateralized. Included in the above figures are certificates of deposits of \$6,257,108. The carrying amount is \$7,497,972.

**Custodial credit risk – investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits	\$ 7,497,972
Investments	<u>758,526</u>
	<u><u>\$ 8,256,498</u></u>

The above amounts are reported in the financial statements as follows:

District wide:	
Cash	\$ 905,855
Investments	<u>7,350,643</u>
	<u><u>\$ 8,256,498</u></u>

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2007 consist of the following:

	<u>Government wide</u>
State aid	\$ 774,494
Medicaid	117,474
Federal revenue	696,458
Local/intermediate sources	<u>135,495</u>
	<u><u>\$ 1,723,921</u></u>

No allowance for doubtful accounts is considered necessary based on previous experience.

**NOTE 5 - LONG-TERM RECEIVABLE**

For the year ended June 30, 2007 Mecosta-Osceola Intermediate School District purchased student management software on behalf of its locals. The local school districts will reimburse the District over the course of three years. The funds will be collected as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 44,297
2009	34,626
2010	<u>34,626</u>
	<u><u>\$ 113,549</u></u>

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 6 - CAPITAL ASSETS**

A summary of changes in the District's capital assets follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Assets not being depreciated:				
Land	\$ 110,235	\$	\$	\$ 110,235
Work in process		25,785		25,785
Subtotal	110,235	25,785		136,020
Other capital assets:				
Land improvements	60,299			60,299
Buildings and improvements	4,937,044	133,511		5,070,555
Buses and other vehicles	781,117	84,146		865,263
Furniture and equipment	1,603,368	233,171		1,836,539
Subtotal	7,381,828	450,828		7,832,656
Accumulated depreciation:				
Land improvements	12,725	2,890		15,615
Buildings and improvements	1,590,297	99,738		1,690,035
Buses and other vehicles	554,898	59,069		613,967
Office and instructional equipment	1,165,547	69,644		1,235,191
Subtotal	3,323,467	231,341		3,554,808
Net capital assets being depreciated	4,058,361	219,487		4,277,848
Net governmental capital assets	\$ 4,168,596	\$ 245,272	\$	\$ 4,413,868

Depreciation for the fiscal year ended June 30, 2007 amounted to \$231,341. The District allocated depreciation to the various activities as follows:

Governmental activities:	
Instruction	\$ 125,396
Support services	105,945
Total governmental activities	\$ 231,341



**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 7 - LONG-TERM DEBT**

The District issues bonds, notes, and other contractual commitments to funds for the acquisition, construction and improvement of major facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Notes and installment purchase agreements are also general obligations to the District. Other long-term obligations include employee compensated absences.

Long-term obligations currently outstanding are as follows:

	Durant non-plaintiff bond	2000 Energy bonds	Employee- compensated absences	Total
Balance July 1, 2006	\$ 337,981	\$ 65,000	\$ 323,000	\$ 725,981
Additions			47,519	47,519
Deletions		(65,000)	(10,360)	(75,360)
Balance June 30, 2007	337,981		360,159	698,140
Less current portion			(71,832)	(71,832)
Total due after one year	<u>\$ 337,981</u>	<u>\$</u>	<u>\$ 288,327</u>	<u>\$ 626,308</u>

Bonds payable at June 30, 2007 are comprised of the following issues:

1998 limited obligation bonds (Durant bonds) due in annual installments of \$33,371 to \$194,659 due May 15, 2013, with interest at 4.76%. Certain state aid payments have been pledged as security.	\$ 337,981
Compensated absences	<u>360,159</u>
Total general long-term debt	<u>\$ 698,140</u>

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 7 - LONG-TERM DEBT (Concluded)**

The annual requirements to amortize long-term obligations outstanding exclusive of compensated absences as of June 30, 2007, including interest of \$92,868 are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 194,660	\$ 75,411	\$ 270,071
2010	33,371	6,824	40,195
2011	34,961	5,235	40,196
2012	36,623	3,571	40,194
2013	38,366	1,827	40,193
	\$ 337,981	\$ 92,868	\$ 430,849

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

**NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)**

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2007 was 16.34% through September 2006 and 17.74% for October 1, 2006 through June 30, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were \$1,526,511, \$1,277,219 and \$1,136,153, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement and post-retirement benefits which is the responsibility of the State of Michigan.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 9 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

**NOTE 10 - INTERFUND TRANSFERS**

The composition of interfund transfers at June 30, 2007 is as follows:

	Transfers Out			
	General fund	Special education fund	Vocational education fund	Total
Transfers in:				
Vocational education	\$ 73,711	\$ 73,711	\$	\$ 147,422
Other nonmajor governmental funds	70,677	17,197	106,271	194,145
Total	<u>\$ 144,388</u>	<u>\$ 90,908</u>	<u>\$ 106,271</u>	<u>\$ 341,567</u>

Transfers provided funding for vocational education technology department, capital projects and debt services.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENT**

**NOTE 11 - DESIGNATED FUND BALANCE**

The designated fund balance accounts at June 30, 2007 consist of the following:

	General fund	Special education fund	Vocational education fund	Total
Future expansion	\$ 1,111,742	\$ 1,835,718	\$ 1,795,372	\$ 4,742,832
Employee-compensated absences	25,468	251,084	83,607	360,159
	<u>\$ 1,137,210</u>	<u>\$ 2,086,802</u>	<u>\$ 1,878,979</u>	<u>\$ 5,102,991</u>

**NOTE 12 - FUND DEFICIT**

The capital projects fund had a fund balance deficit at year end of \$3,586. This arose from building improvements and renovations. The District plans on transferring funds to eliminate the deficit.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2007**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget- positive (negative)</b>
<b>REVENUES:</b>				
Local sources:				
Property taxes	\$ 443,505	\$ 443,505	456,497	\$ 12,992
Investment earnings	60,000	64,000	84,949	20,949
Other	15,000	99,950	94,307	(5,643)
Total local sources	518,505	607,455	635,753	28,298
State sources	705,740	1,010,842	925,859	(84,983)
Federal sources	26,600	33,375	31,553	(1,822)
Interdistrict sources	473,467	456,653	448,384	(8,269)
Total revenue	1,724,312	2,108,325	2,041,549	(66,776)
<b>EXPENDITURES:</b>				
Instruction:				
Basic	404,865	533,729	499,467	34,262
Supporting services:				
Pupil	100,193	133,867	117,351	16,516
Instruction	248,305	311,927	265,149	46,778
General administration	210,318	201,786	196,405	5,381
Business	260,180	270,797	263,040	7,757
Operation and maintenance	115,266	146,321	128,037	18,284
Transportation	18,400	18,600	13,706	4,894
Central support	264,901	434,287	279,213	155,074
Community services	5,044	103,274	78,160	25,114
Transfer to school districts and other governmental units	242,953	205,547	205,393	154
Total expenditures	1,870,425	2,360,135	2,045,921	314,214
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(146,113)	(251,810)	(4,372)	247,438
<b>OTHER FINANCING USES:</b>				
Operating transfers to other funds	(74,897)	(138,421)	(144,388)	(5,967)
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (221,010)</u>	<u>\$ (390,231)</u>	(148,760)	<u>\$ 241,471</u>
<b>FUND BALANCE:</b>				
Beginning of year			1,790,538	
End of year			<u>\$ 1,641,778</u>	

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
SPECIAL EDUCATION FUND  
YEAR ENDED JUNE 30, 2007**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget- positive (negative)</b>
<b>REVENUES:</b>				
Local sources:				
Property taxes	\$ 4,150,067	\$ 4,227,067	\$ 4,280,475	\$ 53,408
Investment earnings	70,000	110,000	160,166	50,166
Other	502,000	702,000	676,009	(25,991)
Total local sources	4,722,067	5,039,067	5,116,650	77,583
State sources	4,115,476	4,115,476	4,606,039	490,563
Federal sources	2,901,546	2,872,452	2,841,806	(30,646)
Interdistrict sources	94,886	123,526	126,214	2,688
Total revenue	11,833,975	12,150,521	12,690,709	540,188
<b>EXPENDITURES:</b>				
Instruction:				
Added needs	4,476,212	4,797,592	4,709,578	88,014
Supporting services:				
Pupil	4,602,795	4,768,045	4,633,131	134,914
Instruction	809,853	836,775	773,713	63,062
General administration	104,935	113,711	71,582	42,129
Business	430,022	512,799	483,980	28,819
Operation and maintenance	229,467	240,013	200,554	39,459
Transportation	752,790	839,300	830,371	8,929
Central support	158,148	179,566	170,603	8,963
Community services	9,000	7,450	2,469	4,981
Transfer to school districts and other governmental units	445,413	726,534	630,754	95,780
Total expenditures	12,018,635	13,021,785	12,506,735	515,050
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(184,660)</b>	<b>(871,264)</b>	<b>183,974</b>	<b>1,055,238</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers to other funds	(82,841)	(89,047)	(90,908)	(1,861)
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (267,501)</b>	<b>\$ (960,311)</b>	<b>93,066</b>	<b>\$ 1,053,377</b>
<b>FUND BALANCE:</b>				
Beginning of year			4,133,805	
End of year			\$ 4,226,871	



**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
VOCATIONAL EDUCATION FUND  
YEAR ENDED JUNE 30, 2007**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget- positive (negative)</u>
<b>REVENUES:</b>				
Local sources:				
Property taxes	\$ 2,625,082	\$ 2,695,082	\$ 2,740,589	\$ 45,507
Investment earnings	60,000	95,000	127,790	32,790
Other	195,500	96,500	158,142	61,642
Total local sources	2,880,582	2,886,582	3,026,521	139,939
State sources	357,832	375,780	391,896	16,116
Federal sources	360,751	360,751	360,751	
Total revenue	3,599,165	3,623,113	3,779,168	156,055
<b>EXPENDITURES:</b>				
Instruction:				
Added needs	2,461,282	2,273,323	2,114,941	158,382
Supporting services:				
Pupil	346,055	326,138	313,497	12,641
Instruction	11,572	14,572	12,300	2,272
General administration	59,586	64,086	56,015	8,071
School administration	241,117	231,379	222,846	8,533
Business	215,672	242,103	228,585	13,518
Operation and maintenance	394,184	361,738	304,846	56,892
Central support	292,988	309,859	274,308	35,551
Other	45,000	45,000	38,753	6,247
Community services	18,652	29,652	22,665	6,987
Transfer to school districts and other governmental units	227,146	227,146	227,146	
Total expenditures	4,313,254	4,124,996	3,815,902	309,094
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(714,089)</u>	<u>(501,883)</u>	<u>(36,734)</u>	<u>465,149</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers from other funds	128,384	142,412	147,422	5,010
Operating transfers to other funds	(42,818)	(119,774)	(106,271)	13,503
Total other financing sources (uses)	85,566	22,638	41,151	18,513
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (628,523)</u>	<u>\$ (479,245)</u>	4,417	<u>\$ 483,662</u>
<b>FUND BALANCES:</b>				
Beginning of year			2,935,107	
End of year			<u>\$ 2,939,524</u>	

## **ADDITIONAL INFORMATION**

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NONMAJOR GOVERNMENTAL FUND TYPES  
COMBINING BALANCE SHEET  
JUNE 30, 2007**

	Cooperative education special revenue fund	Vocational education capital project fund	Total
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 2,891	\$ 2,376	\$ 5,267
Due from other governmental units	47,725		47,725
Prepaid expenditures	822		822
<b>TOTAL ASSETS</b>	<b>\$ 51,438</b>	<b>\$ 2,376</b>	<b>\$ 53,814</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 1,000	\$ 5,962	\$ 6,962
<b>FUND BALANCES:</b>			
Reserved, prepaid expenditures	822		822
Unreserved, undesignated	49,616	(3,586)	46,030
<b>TOTAL FUND BALANCES</b>	<b>50,438</b>	<b>(3,586)</b>	<b>46,852</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 51,438</b>	<b>\$ 2,376</b>	<b>\$ 53,814</b>

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NONMAJOR GOVERNMENTAL FUND TYPES  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2007**

	Cooperative education special revenue fund	2000 Energy debt service fund	Vocational education capital project fund	Total
<b>REVENUE:</b>				
Local sources:				
Investment earnings	\$	\$	\$ 2,925	\$ 2,925
Interdistrict sources	218,892			218,892
Total revenue	218,892		2,925	221,817
<b>EXPENDITURES:</b>				
Support services				
General administration	44,052			44,052
Operation and maintenance	109,776			109,776
Central support	100,421			100,421
Debt service:				
Principal		65,000		65,000
Interest		3,510		3,510
Other		275		275
Capital outlay			273,690	273,690
Total expenditures	254,249	68,785	273,690	596,724
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(35,357)	(68,785)	(270,765)	(374,907)
<b>OTHER FINANCING SOURCES:</b>				
Operating transfers from other funds	60,360	68,785	65,000	194,145
<b>NET CHANGE IN FUND BALANCES</b>	25,003		(205,765)	(180,762)
<b>FUND BALANCES:</b>				
Beginning of year	25,435		202,179	227,614
End of year	\$ 50,438	\$	\$ (3,586)	\$ 46,852

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS  
DURANT NON-PLAINTIFF BOND  
YEAR ENDED JUNE 30, 2007**

Year ending June 30,	Principal amount	Interest amount	Total
2009	\$ 194,660	\$ 75,411	\$ 270,071
2010	33,371	6,824	40,195
2011	34,961	5,235	40,196
2012	36,623	3,571	40,194
2013	38,366	1,827	40,193
	<u>\$ 337,981</u>	<u>\$ 92,868</u>	<u>\$ 430,849</u>

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorized the payment of the State Aid Payments directly to the Authority's Depository.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**

**ADDITIONAL REPORTS REQUIRED BY**

**OMB CIRCULAR A-133**

**YEAR ENDED JUNE 30, 2007**

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Lamonte T. Lator  
Bruce J. Dunn  
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Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education  
Mecosta-Osceola Intermediate School District  
Big Rapids, Michigan

September 11, 2007

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mecosta-Osceola Intermediate School District as of and for the year ended June 30, 2007, which collectively comprise Mecosta-Osceola Intermediate School District's basic financial statements and have issued our report thereon dated September 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Mecosta-Osceola Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.



September 11, 2007

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mecosta-Osceola Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Mecosta-Osceola Intermediate School District in a separate letter dated September 11, 2007.

This report is intended for the information and use of the Board of Education, management and U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer, Costeniser & Ellis, P.C.*

Certified Public Accountants



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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education  
Mecosta-Osceola Intermediate School District  
Big Rapids, Michigan

September 11, 2007

Compliance

We have audited the compliance of Mecosta-Osceola Intermediate School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Mecosta-Osceola Intermediate School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of Mecosta-Osceola Intermediate School District's management. Our responsibility is to express an opinion on Mecosta-Osceola Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mecosta-Osceola Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Mecosta-Osceola Intermediate School District's compliance with those requirements.

In our opinion, Mecosta-Osceola Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

### Internal Control Over Compliance

The management of Mecosta-Osceola Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mecosta-Osceola Intermediate School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of Mecosta-Osceola Intermediate School District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we would consider to be material weaknesses, as defined above.

September 11, 2007

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Mecosta-Osceola Intermediate School District as of for the year ended June 30, 2007, and have issued our report thereon dated September 11, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Mecosta-Osceola Intermediate School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer, Costenaro & Ellis, P.C.*

Certified Public Accountants

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2007**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Approved amount	Accrued (deferred) July 1, 2006	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) June 30, 2007
<u>U.S Department of Education:</u>								
Passed through Michigan Department of Education:								
Title I Part D	84.010	051700-0506	\$ 192,009	\$ 30,022	\$ 192,009	\$ 30,022	\$ -	\$
		061700-0506	64,356	23,679	23,679	23,679	-	
		061700-0607	204,621	-	-	181,715	202,853	21,138
		071700-0607	155,445	-	-	42,736	117,161	74,425
			616,431	53,701	215,688	278,152	320,014	95,563
Special Education Cluster:								
IDEA	84.027	050450-0405	2,054,659	25,554	111,843	25,554	-	
		060450-0506	2,108,796	538,622	2,069,094	578,324	39,702	-
		070450-607	2,107,955		-	1,691,106	2,089,017	397,911
		060480-EOSD	50,000	18,953	50,000	18,953	-	-
		070480-EOSD	50,000	-	-	48,447	50,000	1,553
		070440-0607	4,000	-	-	-	1,478	1,478
		060490-TS	70,000	17,857	70,000	17,857	-	-
		070490-TS	70,000	-	-	34,053	66,643	32,590
			6,515,410	600,986	2,300,937	2,414,294	2,246,840	433,532
Preschool Incentive								
	84.173	050460-0405	103,808	9,280	32,111	9,280	-	-
		060460-0506	102,120	36,081	102,120	36,081	-	-
		070460-0607	100,578	-	-	81,237	100,403	19,166
			306,506	45,361	134,231	126,598	100,403	19,166
Total Special Education Cluster			6,821,916	646,347	2,435,168	2,540,892	2,347,243	452,698

The accompanying notes are an integral part of this schedule.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2007**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Approved amount	Accrued (deferred) July 1, 2006	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) June 30, 2007
U.S Department of Education (Continued):								
Passed through Michigan Department of Education (Continued):								
Vocational Education - Basic Grants to States (Perkins II):	84.048	063520-601207	\$ 370,655	\$ 51,619	\$ 370,655	\$ 51,619	\$ -	\$ -
		073520-701207	360,751	-	-	246,631	360,751	114,120
			731,406	51,619	370,655	298,250	360,751	114,120
Infant Toddler Formula	84.181	051340-190	109,838	428	16,748	428	-	-
		061340-190	100,885	28,058	83,883	45,060	17,002	-
		071340-190	97,034	-	-	49,536	78,385	28,849
			307,757	28,486	100,631	95,024	95,387	28,849
Homeless Children & Youths	84.196	062320-0506	21,782	3,352	13,074	6,791	3,439	-
		062320-0607	5,269	-	-	5,269	5,269	-
		072320-0607	27,988	-	-	17,467	20,925	3,458
			55,039	3,352	13,074	29,527	29,633	3,458
Title V LEA Allocation	84.298	060250-0607	1,351	-	-	150	1,196	1,046
		070250-0607	1,001	-	-	-	-	-
			2,352	-	-	150	1,196	1,046

The accompanying notes are an integral part of this schedule.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2007**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Approved amount	Accrued (deferred) July 1, 2006	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) June 30, 2007
<u>U.S Department of Education (Concluded):</u>								
Passed through Michigan Department of Education (Concluded):								
Improving Teacher Quality	84.367	050520-0506	\$ 1,117	\$ 1,085	\$ 1,085	\$ 1,085	\$ -	\$ -
		060520-0607	724	-	-	-	724	724
		070520-0607	724	-	-	-	-	-
			2,565	1,085	1,085	1,085	724	724
Total passed through Michigan Department of Education and U.S. Department of Education			8,537,466	784,590	3,136,301	3,243,080	3,154,948	696,458
<u>U.S. Department of Health and Human Services:</u>								
Passed through Michigan Department of Community Health								
Medicaid - Administrative Outreach Claiming	93.778		79,162	-	-	79,162	79,162	-
Total federal awards			\$ 8,616,628	\$ 784,590	\$ 3,136,301	\$ 3,322,242	\$ 3,234,110	\$ 696,458

The accompanying notes are an integral part of this schedule.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**PASS THROUGH AMOUNTS**  
**YEAR ENDED JUNE 30, 2007**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Subrecipient award/contract amount	Due to (from) subrecipient July 1, 2006	(Memo only) Subrecipient prior year expenditures	Subrecipient current year expenditures	Current year cash transferred to subrecipient	Due to (from) subrecipient June 30, 2007
<u>U.S. Department of Education:</u>							
Passed through the Michigan Department of Education:							
IDEA flowthrough:	84.027A						
IDEA Transition Services - Project number							
070490-TS - Passed through to:							
Crossroads Charter Academy		\$ 1,337	\$	\$	\$ 577	\$ 577	\$
Evart Public Schools		1,400			1,400	1,400	
Morley Stanwood Community Schools		500			500	500	
Reed City Area Public Schools		1,118			1,118	1,118	
Total project number 070490-TS		4,355			3,595	3,595	
Total IDEA grants		4,355	-	-	3,595	3,595	
Perkins Vocational Education Regional Allocation -	84.048						
Project number 073520-701207 - Passed through to:							
Mason-Lake ISD		112,562			112,562	112,562	
Newaygo ISD		114,584			114,584	114,584	
Total Perkins Regional Allocation		227,146			227,146	227,146	
Total passed through the Michigan Department of Education		231,501	-	-	230,741	230,741	

The accompanying notes are an integral part of this schedule.



**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**PASS THROUGH AMOUNTS**  
**YEAR ENDED JUNE 30, 2007**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Subrecipient award/contract amount</u>	<u>Due to (from) subrecipient July 1, 2006</u>	<u>(Memo only) Subrecipient prior year expenditures</u>	<u>Subrecipient current year expenditures</u>	<u>Current year cash transferred to subrecipient</u>	<u>Due to (from) subrecipient June 30, 2007</u>
<u>U.S. Department of Health and Human Services:</u>							
Medicaid Administrative Outreach:	93.778						
Passed through to:							
Big Rapids Public Schools		\$ 14,652	\$	\$	\$ 14,652	\$ 10,763	\$ 3,889
Chippewa Hills School District		9,909			9,909	7,747	2,162
Crossroads Charter Academy		3,006			3,006	2,409	597
Ewart Public Schools		3,889			3,889	2,959	930
Morley Stanwood Community Schools		3,384			3,384	2,557	827
Reed City Area Public Schools		4,765			4,765	3,486	1,279
Total Medicaid Administrative Outreach		39,605			39,605	29,921	9,684
Total federal funds passed through to subrecipients		\$ 271,106	\$ -	\$ -	\$ 270,346	\$ 260,662	\$ 9,684

The accompanying notes are an integral part of this schedule.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

NOTES:

1. Basis of Presentation – The accompanying schedule of expenditures of federal awards includes the federal grant activities of Mecosta-Osceola Intermediate School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and reconciles with the amounts in the preparation of the financial statements.
2. CFDA Programs Special Education Cluster 84.027 and 84.173, CFDA Program 84.010 Title I Part D, and CFDA Program 84.048 Vocational Education - Basic Grants to State (Perkins II) where audited as the major programs representing 94% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. The expenditures on the schedule of expenditures of federal awards do not include local match.
5. Expenditures in this schedule have been reconciled with Michigan Department of Education financial reports (DS4044, DS4092A, and other applicable reports).
6. Management has utilized the Grant Section Auditors Report (Form R7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
7. Federal revenue per financial statements

General Fund	\$ 31,553
Special Education Fund	2,841,806
Vocational Education Fund	<u>360,751</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 3,234,110</u></u>

8. Subrecipients - Of the federal expenditures presented in the schedule of expenditures of federal awards, Mecosta-Osceola Intermediate School District provided federal awards to subrecipients reported in the enclosed schedule of pass-through amounts.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007**

**Section I - Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified: \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be Reported with Section 510(a) of OMB Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027 and 84.173	Special Education Cluster
84.010	Title I Part D
84.048	Vocational Education-Basic Grants to States (Perkins II)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**Section II - Financial Statement Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

None

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007**

There were no findings for the prior two years.



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raeck  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

September 11, 2007

To the Board of Education  
Mecosta-Osceola Intermediate School District  
Big Rapids, Michigan

In planning and performing our audit of the financial statements of Mecosta-Osceola Intermediate School District as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Mecosta-Osceola Intermediate School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 11, 2007 on the financial statements of Mecosta-Osceola Intermediate School District. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies.

We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

**New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of \$25,000 or less Such as Booster Groups and PTO's**

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally \$25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally \$25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally \$5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15<sup>th</sup> day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

The notice will require these organizations to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- Organization's website address (if applicable),
- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization.

- Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally \$25,000 or less, and
- Indicate if your organization has terminated (is no longer in business).

### **IRS 403(b) Final Regulations**

#### **Intent**

The intent of the regulations is to consolidate guidance on §403(b) plans issued since 1964.

#### **Effective Date**

These regulations are generally effective for taxable years beginning after December 31, 2008.

Plan documents should be in place December 31, 2008 to be implemented as of January 1, 2009.

#### **Written Plan Document**

The IRS is working on a model plan document and guidance for school districts. This should contain the provisions necessary for compliance with the new rules.

A plan may consist of several documents, or make reference to other documents, such as annuity contracts and custodial agreements. The employer must ensure that there are no conflicts or inconsistencies between the documents.

The document must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions.

The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants.

#### **Other Provisions**

- Exchange of investment products
- Universal availability
- Distributions
- Terminations

### Suggestions

Set up a committee of benefit officials and participants to review the current plan and design the future plan.

Determine if you need a third party administrator (TPA) to administer the plan and create a request for proposal (RFP) for services.

Offer employee education. The IRS is developing this type of information as well as a model plan for school districts.

### New Auditing Standards

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area which will continue to be emphasized is your internal controls.

### New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar Employees

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can effect teachers an similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year.

These rules are not applicable unless an election must be made. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.



In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

**Capital projects fund deficit**

The capital projects fund incurred a fund deficit at year end of \$3,586. This arose from building improvements and renovation. The District should make plans to eliminate the deficit.

**Federal Payroll - Certifications**

During the course of our audit we noted semi-annual cost certifications were not provided for employees who began employment with the district after the start of the certification period. We recommend that certifications be signed by all employees even if the start of employment began after the start of the certification period.

This report is intended solely for the information and use of Mecosta-Osceola Intermediate School District, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Mary Costeniser, E. Ellis, P.C.*



Lamonte T. Lator  
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September 11, 2007

To the Board of Education  
Mecosta-Osceola Intermediate School District  
Big Rapids, Michigan

We have audited the financial statements of Mecosta-Osceola Intermediate School District for the year ended June 30, 2007, and have issued our report thereon dated August 10, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material error, fraud, or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered Mecosta-Osceola Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Mecosta-Osceola Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Mecosta-Osceola Intermediate School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Mecosta-Osceola Intermediate School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Mecosta-Osceola Intermediate School District's compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Mecosta-Osceola Intermediate School District are described in Note 1 to the financial statements. No new accounting policies were adapted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Mecosta-Osceola Intermediate School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus except as disclosed to record a prior period adjustment.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the liability of the payout of employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Mecosta-Osceola Intermediate School District's financial reporting process, that is, cause future financial statements to be materially misstated. In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Mecosta-Osceola Intermediate School District, either individually or in the aggregate, indicate matters that could have a significant effect on the Mecosta-Osceola Intermediate School District's financial reporting process. Management has approved all adjustments.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants. We did consult with the predecessor auditors and they concurred with the prior period adjustment.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Mecosta-Osceola Intermediate School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Board of Education  
Mecosta-Osceola Intermediate School District  
Big Rapids, Michigan

-4-

September 11, 2007

8. Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the board of education and management of Mecosta-Osceola Intermediate School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Mamie Costenson & Ellis, P.C.*